

UNIVERSITY  
RESEARCH

Family Members

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National Security and  
International Affairs Division

B-257828

February 15, 1995

The Honorable Tom Harkin  
Ranking Minority Member,  
Subcommittee on Labor, Health  
and Human Services, Education,  
and Related Agencies  
Committee on Appropriations  
United States Senate

The Honorable John Dingell  
Ranking Minority Member  
Committee on Commerce  
House of Representatives

As requested, we reviewed tuition assistance costs being charged to the government for family members of employees of educational institutions performing government-funded research. Our objectives were to (1) compare U.S. policies for paying these expenses with U.S. policies for paying similar expenses incurred by commercial businesses, (2) obtain information on the nature and extent of tuition assistance, (3) ascertain the costs to the U.S. government and the federal agencies involved, and (4) determine the salary levels of the employees whose families are receiving tuition assistance.

## Results in Brief

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Under existing Office of Management and Budget (OMB) guidance, educational institutions performing government research contracts and grants are allowed to recover the cost of tuition assistance provided to employee family members; however, under the Federal Acquisition Regulation (FAR),<sup>1</sup> commercial concerns are specifically prohibited from doing so.

A large number of educational institutions provide, as part of an employee's compensation, tuition assistance to the employee's family members and charge these costs to federal research contracts and grants. Of 65 educational institutions surveyed by the Department of Health and

<sup>1</sup>The FAR contains uniform guidance for the procurement of supplies and services by federal executive agencies and includes cost principles on the allowability of costs charged to government contracts by commercial concerns.

Human Services (HHS) and the Office of Naval Research (ONR),<sup>2</sup> 51 universities, or about 78 percent, provided such tuition assistance.

To obtain insight into the extent of the programs, we visited 5 of the top 10 universities with the most federal government-funded contracts and grants during fiscal year 1992. Over a 3-year period (1991-93), four of the five universities we visited had recorded costs of about \$53 million for tuition assistance to employee family members and charged about \$17 million, or 32 percent of these costs, to federal research contracts and grants. These research contracts and grants were received from various federal agencies, including the Departments of Defense, Energy, HHS, and Education.

The universities we visited have widely different program benefits and eligibility requirements. For example, one offers no benefits, while another provides tuition assistance for nursery through graduate school. Another university provides up to one-half its tuition if a dependent attends the university or another accredited university but pays up to its full tuition when both spouses are employed by the university. Some of the universities offer greater tuition assistance benefits to faculty and senior administrative employees; however, most employees are eligible to receive some amount of tuition assistance for their family members. Of the 2,628 employees receiving tuition assistance benefits at 4 universities during 1993, 45 percent had annual salaries of \$50,000 or less, 34 percent had annual salaries of between \$50,000 and \$100,000, and 21 percent had annual salaries of over \$100,000. During 1993, the four universities that provided tuition assistance benefits to dependents were awarded federal research contracts and grants totaling \$2.5 billion.

## Comparison of Allowability Under OMB Guidance and the FAR

OMB Circular A-21<sup>3</sup> provides that tuition assistance for family members of employees of educational institutions is an allowable fringe benefit chargeable to government research contracts and grants, provided the benefits are granted in accordance with established institutional policies and are distributed equitably to all institutional activities. This particular fringe benefit is common among educational institutions and has been an allowable charge to federal research contracts and grants for years.

<sup>2</sup>HHS and ONR are responsible for auditing and establishing overhead rates for most educational institutions.

<sup>3</sup>OMB A-21 establishes cost principles that educational institutions are required to follow in determining allowable costs and methods of allocating such costs to federally funded research contracts and grants.

In contrast, the FAR provides that tuition, textbooks, and similar benefits provided by commercial concerns for other than bona fide employees are expressly unallowable and cannot be charged to the government, and it specifically makes unallowable the costs of college plans for employee dependents. However, this was not always the case. Before October 28, 1977, some commercial contractors claimed tuition costs for employee family members as an allowable compensation fringe benefit. To counter this trend and to explicitly state what seemed to be existing policy concerning the allowability of education payments by commercial contractors, a procurement regulation review committee revised the regulation to make tuition costs for contractor employee family member expressly unallowable.

In its deliberations, the committee cited several reasons for its decision. It said it had historically accepted educational costs for bona fide employees as allowable because training improved the vocational effectiveness of employees, which benefited both the contractor and the government. The committee believed, however, that there was no benefit to the government from subsidizing tuition costs of employee family members. It also stated that tuition costs for employee dependents are by their very nature discriminatory and potentially counterproductive because childless or unmarried employees might resent the program.

At the same time, the committee recognized that the regulations specifically allowed tuition assistance reimbursement for family members of university employees as an acceptable staff benefit. According to the committee, academic salaries were generally lower than the salaries paid by commercial and not-for-profit concerns, and tuition assistance was just one of a number of benefits made available to university staff to compensate for the lower salaries. The committee observed that the existence of these benefits did not require that commercial firms provide the same benefits in addition to higher salaries.

## Tuition Assistance Programs Are a Common Practice Among Many Universities

Tuition assistance for employee family members is a common practice at many U.S. universities and has been for many years. At our request, HHS and ONR surveyed 65 educational institutions to determine how many currently provide that benefit. Of the 65 universities surveyed, 51, or about 78 percent, provide it. The 65 universities consist of 33 public and 32 private institutions. Of the 33 public institutions, 20, or about 61 percent, provide tuition assistance to employee family members. Of the 32 private institutions, 31, or about 97 percent, provide it.

For the 29 universities that ONR oversees, 23, or about 79 percent, provide tuition assistance to employee family members. Of these 23, 10 limit the benefits to employee dependents, 12 extend the benefits to employee spouses and dependents, and 1 limits the benefits to employee spouses. For the 36 universities surveyed by HHS, 28, or about 78 percent, provide tuition assistance to employee family members. Of these 28 universities, 6 limit the benefits to employee dependents, and 22 extend the benefits to spouses and dependents.

While these results cannot be generalized to all universities, they show that tuition assistance for employee family members is a common practice and is more common with private than public universities.

## Tuition Assistance Programs Vary Widely

Four of the five universities we visited offer different types of tuition assistance for family members of employees of the universities and their research laboratories. The University of California does not provide tuition assistance benefits to employee dependents because, according to the university, its charges are low compared with other educational institutions. The universities providing the benefit limit their assistance under these programs to tuition cost and do not provide assistance for such items as room and board, books, and laboratory fees. Table 1 summarizes the tuition assistance programs available to employee dependents and spouses. Specifics of the programs are discussed following the table.

**Table 1: General Description of Tuition Assistance Programs Provided by Five Universities**

Institution	Eligible participant		Tuition assistance provided			Undergraduate assistance at other institutions
	Dependent	Spouse	Primary/secondary	Undergraduate	Graduate	
Massachusetts Institute of Technology (including Lincoln Laboratory)	Yes	No	No	Yes	Yes	Yes
Stanford University (including Stanford Linear Accelerator Center)	Yes	No	No	Yes	No	Yes
University of California (including Los Alamos National Laboratory, Lawrence Livermore National Laboratory, and Lawrence Berkeley Laboratory <sup>a</sup> )		Tuition assistance not offered				
Johns Hopkins University (including Applied Physics Laboratory)	Yes	Yes	No	Yes	Yes	Yes
University of Chicago (including Argonne National Laboratory)	Yes	Yes	Yes	Yes	Yes <sup>b</sup>	Yes

<sup>a</sup>These three laboratories are federally funded research and development centers (FFRDC) operated by the university.

<sup>b</sup>Benefit is available to spouses only.

## Programs for Dependents

Four universities provide tuition assistance to employee dependents for undergraduate studies at the university where the employee works. The University of California does not.

In addition, four universities provide tuition assistance to dependents for undergraduate studies at other accredited educational institutions. Three—Massachusetts Institute of Technology (MIT), Stanford, and Johns Hopkins—limit their financial assistance to one-half their annual tuition. The University of Chicago provides assistance up to its full annual tuition, depending on the position of the employee.

Stanford and the University of Chicago do not provide assistance to employee dependents for graduate studies. MIT and Johns Hopkins provide limited assistance for graduate studies. MIT has a program in which dependents can receive tuition assistance of up to one-half the tuition for graduate studies taken only at MIT. Johns Hopkins has a program in which dependents can take up to 18 hours of continuing education courses a year at the university and receive assistance of up to one-half the tuition.



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The University of Chicago has a unique program that provides one-half of the tuition for employee dependents to attend the nursery, kindergarten, elementary, and high schools it operates. During 1993, the annual student tuition costs of these schools ranged from about \$4,700 to \$9,300, depending on the grade level. None of the other universities we visited provide tuition assistance below the undergraduate level. University of Chicago officials pointed out that this program is part of the university's commitment to maintaining a high quality of life for the surrounding community. These officials also stated the tuition assistance encourages faculty and staff with young children to reside in the university neighborhood.

All four universities have eligibility requirements for tuition assistance. Requirements include the employee's position, employment status (full time or part time), length of employment with the university, and a number of other requirements. At two universities, the amount of assistance provided depended on the date of employment.

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### Programs for Spouses

MIT and Stanford do not provide tuition assistance to employee spouses for either undergraduate or graduate studies, and Johns Hopkins and the University of Chicago provide limited assistance. Johns Hopkins has a program in which spouses can take up to 18 hours of continuing education courses a year at the university and receive assistance of up to one-half their tuition. At the University of Chicago, employee spouses and same-sex university-registered domestic partners can attend graduate studies at the university and receive assistance of one-half the tuition costs.

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### Federal Share of Tuition Assistance Costs

Part of the cost of the universities' tuition assistance programs is charged to federal research contracts and grants. Four of the five universities we visited include tuition assistance in their employee fringe benefit packages. If the employee worked directly on a government research contract or grant, the employee's salary and fringe benefit costs were charged directly to that particular research contract or grant. In those cases in which an employee's work could not be directly identified with a specific research contract or grant, the salary and fringe benefit costs were charged to an indirect or overhead cost pool and then allocated to government research contracts and grants in accordance with OMB Circular A-21.

During 1991 through 1993, four of the five universities we visited recorded costs of \$52.9 million for tuition assistance to family members and charged about \$17 million, or 32 percent of these costs, to federal research contracts and grants. Table 2 summarizes the number of program participants, the cost of the programs, and the estimated amount charged to the federal government over the 3-year period for those universities.

**Table 2: Tuition Assistance Program Participants and Costs for 1991 Through 1993**

Dollars in thousands

Institution	Number of program participants			Total program costs	Estimated government share <sup>a</sup>
	1991	1992	1993		
Massachusetts Institute of Technology (including Lincoln Laboratory <sup>b</sup> )	694	654	591	\$12,566	\$7,098
Stanford University (including Stanford Linear Accelerator Center <sup>b</sup> )	767	683	745	10,126	3,610
Johns Hopkins University (including Applied Physics Laboratory <sup>c</sup> )	1,090	1,125	1,142	13,399	3,744
University of Chicago <sup>d</sup> (including Argonne National Laboratory <sup>b</sup> )	839	925	983	16,842	2,461
<b>Total</b>	<b>3,390</b>	<b>3,387</b>	<b>3,461</b>	<b>\$52,933</b>	<b>\$16,913</b>

<sup>a</sup>The universities provided the estimate of the government's share of total program costs.

<sup>b</sup>These research centers and laboratories are FFRDCs operated by the universities. FFRDCs are funded solely or substantially by federal agencies to meet special research and development needs of the government.

<sup>c</sup>The Applied Physics Laboratory is not an FFRDC; however, it is operated almost exclusively for naval research projects and programs. Johns Hopkins operates the laboratory under the FAR cost principles, which state that tuition costs for family members of employees are expressly unallowable. The estimated government share represents only the portion of program costs attributable to the University.

<sup>d</sup>The University of Chicago operates the Argonne National Laboratory for the Department of Energy. It does not charge tuition assistance costs for Argonne employees to the contract because such costs were not identified as allowable costs in the contract with the Department.

Of the \$16.9 million estimated government share of these costs, \$13 million was charged as a direct cost to federal research grants and contracts,<sup>4</sup> and the remaining \$3.9 million was charged through indirect costs. In cases in which dependents and spouses attended the university where the employees worked, the four universities charged the school's full tuition assistance benefit to the fringe benefit pool. For example, MIT would have charged \$18,000 to the fringe benefit pool for a child of a tenured faculty

<sup>4</sup>This amount does not include overhead charges applied to direct costs.



member attending the university during 1993. In cases in which employee dependents attend other accredited educational institutions, the paying universities charge tuition costs up to the limits provided by their respective programs.

## Federal Agencies Award Substantial Amounts of Research to Universities

A number of federal agencies have awarded substantial amounts of research contracts and grants to the institutions we visited. Table 3 summarizes the value of research contracts and grants being carried out by the four universities that charged tuition assistance to the government during 1993, the year for which data was most readily available.

**Table 3: Value of Federal Research Contracts and Grants Awarded During 1993**

Dollars in millions

	Research contracts and grants				Total
	MIT	Johns Hopkins	Stanford	University of Chicago	
Department of Defense	\$375.3	\$431.8	\$42.4	\$2.5	<b>\$852.0</b>
Department of Health and Human Services	64.9	253.0	128.7	73.3	<b>519.9</b>
Department of Energy	57.3	2.2	166.5	570.7	<b>796.7</b>
National Aeronautical and Space Administration	34.0	9.9	54.9	7.1	<b>105.9</b>
National Science Foundation	38.1	11.8	29.6	24.4	<b>103.9</b>
Department of Education	0.5	7.1	6.7	7.1	<b>21.4</b>
Other agencies	52.4	40.2	10.6	2.4	<b>105.6</b>
<b>Total</b>	<b>\$622.5</b>	<b>\$756.0</b>	<b>\$439.4</b>	<b>\$687.5</b>	<b>\$2,505.4</b>

## Universities' Views on the Value of Tuition Assistance Programs

University officials advised us that they consider the continued allowability of tuition assistance for employee dependents to be an important part of their employee compensation packages. They pointed out that tuition assistance is a common practice among universities and is a cost-effective means to recruit and retain high-quality employees. These officials also said that they should be allowed the flexibility to manage their overall compensation programs so long as total compensation was a reasonable amount. In this regard, university officials commented that salaries at educational institutions were lower than those in the commercial sector for comparable positions.

Further, university officials pointed out that there are a number of other differences between universities and commercial firms with respect to cost allowability and that commercial concerns are reimbursed under the FAR for some costs for which educational institutions are not reimbursed under OMB Circular A-21. The officials said such differences reflect a fundamental distinction in the missions and operations of educational institutions compared with commercial concerns. One university official commented that, because of these distinctions, every cost that is available or prohibited to one type of organization should not have to be identically treated by the other.

## Salary Ranges of Employees Receiving Tuition Assistance

We obtained the current salaries of employees at the four universities that offer tuition assistance programs. Table 4 summarizes the employees' salary ranges.

**Table 4: Salary Ranges of Employees Receiving Benefits Under Tuition Assistance Programs**

Salary range	Number of employees	Percentage
Less than \$25,001	350	13.3
\$25,001 to \$50,000	827	31.5
\$50,001 to \$75,000	493	18.8
\$75,001 to \$100,000	407	15.5
\$100,001 to \$125,000	254	9.7
\$125,001 to \$150,000	149	5.7
\$150,001 to \$175,000	66	2.5
\$175,001 to \$200,000	33	1.3
\$200,001 to \$225,000	16	0.6
\$225,001 to \$250,000	7	0.3
Over \$250,000	26	1.0
<b>Total</b>	<b>2,628</b>	<b>100<sup>a</sup></b>

<sup>a</sup>Numbers do not add because of rounding.

Of the 2,628 employees receiving benefits, 45 percent were earning annual salaries of \$50,000 or less, 34 percent were earning between \$50,000 and \$100,000, and 21 percent were earning over \$100,000.

We also observed that Johns Hopkins University provides full tuition when both spouses are employed by the university. Normally, the university provides up to one-half its tuition if a dependent attends the university or another accredited university. However, if both spouses work at the university, each employee receives tuition assistance such that together they receive assistance up to the university's full tuition cost. We identified 41 instances in 1993 in which both spouses worked at the university and together received tuition assistance up to the university's full tuition for a total of 51 dependents.

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## Agency Comments

In commenting on a draft of this report, OMB stated that it had no reason to question the report's factual accuracy and that it would develop policy options for reimbursing tuition assistance to dependents of university employees. On February 6, 1995, OMB published in the Federal Register a proposed change to OMB Circular A-21 to make charges for tuition benefits for any person other than the employee unallowable. The proposed change is to take effect for educational institution's fiscal years beginning after September 30, 1997.

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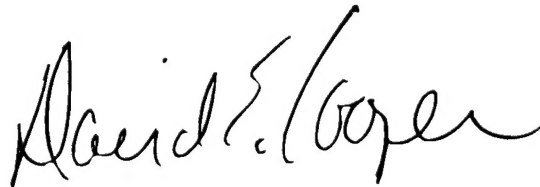
## Scope and Methodology

We compared the allowability of tuition assistance under OMB Circular A-21 with the allowability of such costs under the FAR. We discussed the basis for the costs being allowable to educational institutions with OMB, HHS, and ONR officials. We researched the basis of the decision to make these costs expressly unallowable to commercial concerns. In addition, we visited 5 of the top 10 universities with the most government contracts and grants during fiscal year 1992 and obtained information about their tuition assistance programs for employee family members, the number of family members participating in the programs, the total costs of the programs, the estimated amount of the cost reimbursed by the federal government, and other related information about the programs. We also obtained information from HHS and ONR on tuition assistance programs provided by other educational institutions to determine how widespread this practice was within the university community. We discussed various aspects of tuition assistance with OMB, HHS, ONR, and university officials. Finally, we obtained written comments on a draft of this report from the five universities and OMB and incorporated their comments as appropriate. We conducted our review from October 1993 to May 1994 in accordance with generally accepted auditing standards.

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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Chairman, Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, Senate Committee on Appropriations; the Chairman, House Committee on Energy; the Secretary of HHS; the Director of OMB; the Chief of Naval Research; the universities we visited; and other interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

A handwritten signature in black ink, reading "David E. Cooper". The signature is fluid and cursive, with the first name "David" and last name "Cooper" clearly legible.

David E. Cooper  
Director, Acquisition Policy, Technology,  
and Competitiveness Issues

# Comments From the Office of Management and Budget



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE DIRECTOR

November 14, 1994

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and  
International Affairs Division  
U.S. General Accounting Office  
Washington, DC 20546

Dear Mr. Conahan:

This letter comments on the U.S. General Accounting Office's (GAO) Draft Report, "University-Research: Continued U.S. Reimbursement of Tuition Costs for University Employees' Families Need Review." Thank you for the opportunity to comment on this draft report.

Generally, the draft contains useful information on tuition reimbursement costs covered by Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions." We have no reason to question the report's factual accuracy. However, we are concerned about the draft recommendation that OMB examine this issue further, given the apparent extent of the GAO study effort.

As recommended, I have asked my staff to study the issue over the next several months and to provide me with policy alternatives.

Sincerely,

Alice M. Rivlin  
Director

# Major Contributors to This Report

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ernational Affairs  
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anta Regional  
ce

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